
**CALIFORNIA PUBLIC EMPLOYEES' RETIREMENT SYSTEM
BOARD OF ADMINISTRATION
FINANCE COMMITTEE**

MINUTES OF MEETING

February 10, 2006

The Finance Committee met on Friday, February 10, 2006 in the Lincoln Plaza Building at 400 Q Street, Sacramento, California.

The meeting was called to order at 9:37 a.m. and the following members were present:

Robert Carlson, Chair
Nick Smith for Steve Westly, Vice Chair
James Zerio for Philip Angelides
George Diehr
Priya Mathur
Charles Valdes

Other Board Member(s) present:

Kurato Shimada

AGENDA ITEM 2 – APPROVAL OF December 9, 2005 MEETING MINUTES

The minutes were approved as presented.

AGENDA ITEM 3 – CHIEF AUDITOR'S REPORT

Larry Jensen, Chief, Office of Audit Services, presented a matrix listing the various activities occurring within his Division. The matrix provided a status update on the following as an informational item:

- Biennial Audit Plan
- Conrad and Associates, LLP Merger with Mayer Hoffman McCann PC
- Monitoring and Responding to Exposure Drafts and Proposals
- Reportable Significant/Material Findings

AGENDA ITEM 4 – MANAGEMENT LETTER FOR THE YEAR ENDING JUNE 30, 2005

Staff presented the draft version of the Deloitte & Touche, LLP. 2005 Management Letter and CalPERS' Management Responses to the Committee as an action item. The letter consisted of 11 observations and recommendations. Staff, Deloitte & Touche, and the Committee discussed each observation and recommendation and reached concurrence on each item.

The Committee directed Fiscal Services staff to present an Accounting Action Plan addressing the issues outlined in the Management Letter as an agenda item for the March 2006 Finance Committee meeting.

On **MOTION** by Mr. Diehr, **SECONDED** and **CARRIED**, the Committee recommended the Board accept the draft Management Letter as prepared by Deloitte & Touche, LLP for the year ending June 30, 2005.

AGENDA ITEM 5 – STATE SAVINGS PLUS PROGRAM AUDITED FINANCIAL STATEMENTS FOR THE YEAR ENDING JUNE 30, 2005

Staff presented the State Savings Plus Program Audited Financial Statements for the Year Ending June 30, 2005 as an action item. Deloitte & Touche audited the financial statements for the following three investment options managed by CalPERS for the Department of Personnel Administration's Savings Plus Program:

- Short-Term Treasury
- Intermediate Treasury
- S&P 500

Deloitte & Touche expressed an unqualified opinion on these financial statements and do not have any Management Letter comments for this audit.

On **MOTION** by Mr. Smith, **SECONDED** and **CARRIED**, the Committee recommended the Board approve the State Savings Plus Program Audited Financial Statements for the Year Ending June 30, 2005. The motion included approval to forward the final audit report to the State Controller's Office, the Bureau of State Audits, and the Department of Personnel Administration.

AGENDA ITEM 6 – REQUEST FOR PROPOSAL FOR FINANCIAL STATEMENT AUDITOR

Staff presented a Request for Proposal (RFP) for Financial Statement Auditor to the Committee as an action item. The new Financial Statement Auditor will audit CalPERS' financial statements beginning with fiscal year 2006-07 and ending with fiscal year 2010-11. Discussion between staff and the Committee resulted in the suggestion of several recommendations and amendments to the current RFP as well as the RFP process.

Upon the suggestion of staff and the Committee, the Committee Chair agreed to defer this agenda item to the next Finance Committee in March 2006.

AGENDA ITEM 7 – CHIEF COMPLIANCE OFFICER'S REPORT

Sherry Johnstone, Chief Compliance Officer, presented the 2005 Annual Report from the Office of Enterprise Compliance as an information item. The annual report reflected the status of the following:

- Structure and staffing of the Office of Enterprise Compliance
- Office of Enterprise Compliance 2005 Accomplishments
- Education and Training
- Investments Business Line
- Health Business Line
- Pension Business Line
- Enterprise Business Line

AGENDA ITEM 8 – COMPLIANCE OFFICE REPORT

Ms. Johnstone presented a matrix that reflects the status of the following activities occurring within the Compliance Office to the Committee as an information item:

- Personnel Update
- Program Activities
- Reporting Significant Non-Compliance Issues
- Regulatory Review
- Compliance Area Manager – Investments
- Compliance Area Manager – Health

AGENDA ITEM 9 – 2005-06 ANNUAL PLAN – SECOND QUARTER UPDATE

Susan Garrett, Chief, Strategic Management Services Division, presented the 2005-06 Annual Plan – Second Quarter Update to the Committee as an action item. The report reflected the progress and status of the Annual Plan and the Three-Year Plan.

On **MOTION** by Mr. Diehr, **SECONDED** and **CARRIED**, the Committee recommended the Board approve the 2005-06 Annual Plan – Second Quarter Update and authorized the transmittal of the second quarter update as provided in the accompanying transmittal letter.

AGENDA ITEM 10 – INFORMATION TECHNOLOGY SERVICES STATUS REPORT

Gene Reich, Assistant Executive Officer, Information Technology Services Branch, introduced Ron Reagan to the Committee. Mr. Reagan is the new Data Center Manager.

Mr. Reich also presented a matrix that reflected the status of the Pension System Resumption (PSR) Project as an information item.

AGENDA ITEM 11 – FISCAL YEAR 2005-06 MID-YEAR BUDGET REVISIONS (SECOND READING)

Lyn Vice, Assistant Division Chief, Fiscal Services Division, presented the second reading of Fiscal Year 2005-06 Mid-Year Budget Revisions to the Committee as an action item.

On **MOTION** by Ms. Mathur, **SECONDED** and **CARRIED**, the Committee recommended the Board approve the 2005-06 Mid-Year Budget Revisions – Second Reading and authorized the transmittal of the budget revisions as provided in the accompanying transmittal letter.

AGENDA ITEM 12 – BUDGET AND EXPENDITURE REPORT FOR THE SECOND QUARTER OF FISCAL YEAR 2005-06

Russell Fong, Chief, Fiscal Services Division, presented the Budget and Expenditure Report for the Second Quarter of Fiscal Year 2005-06 to the Committee as an action item.

On **MOTION** by Ms. Mathur, **SECONDED** and **CARRIED**, the Committee recommended the Board approve the Budget and Expenditure Report for the Second Quarter of Fiscal Year 2005-06 and authorized the transmittal of the expenditure report as provided in the accompanying transmittal letter.

AGENDA ITEM 13 – CURRENT BUDGET ISSUES

Ms. Vice provided an update regarding current budget issues to the Committee as an information item.

AGENDA ITEM 14 – ANNUAL CONSULTING AND SERVICES CONTRACTS REPORT

Rick Nelson, Chief, Operations Support Services Division, presented the Annual Consulting and Services Contracts Report to the Committee as an information item.

AGENDA ITEM 15 – ASSISTANT EXECUTIVE OFFICER REPORT

Curtis Howard, Assistant Executive Officer, Administrative Services Branch, presented a matrix that reflected the status of the Independent Review of the Contract Process and the Emergency Response Plan. In addition, Mr. Howard will be providing a quarterly Cash Flow Report of all funds to this Committee beginning with the March Finance Committee meeting.

AGENDA ITEM 16 – PROPOSED MARCH 2006 AGENDA

Mr. Howard stated three items will be added to the March 2006 agenda. Those items are:

- The RFP for the External Auditor Contract
- Fiscal Services Division Accounting Action Plan 2006
- Quarterly Cash Flow Report

AGENDA ITEM 17 – PUBLIC COMMENT

There were no public comments presented.

The next Finance Committee meeting is scheduled for March 14, 2006 in Sacramento, California.